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SUBJECT: ITALIAN TRADE AND INVESTMENT IN VENEZUELA

Summary

11. (U) The presence of a large Italian community in Venezuela has allowed Italian products to occupy a privileged space on Venezuelan shelves in the past. However, the GOV's termination of a service contract held by Eni, Italy's oil and gas parastatal, to operate the Dacion oilfield has now created some tension between Italy and Venezuela. Eni and the GOV are currently negotiating towards a solution. We expect Italian trade and investment in Venezuela to be relatively unaffected by the dispute. End summary.

Italy-Venezuela Trade and Investment

12. (U) According to ICE, the Italian National Institute for Foreign Commerce, Italian exports to Venezuela in the first ten months of 2005 grew from 352.377 million euro to 412.450 million, compared to the same period in 2004, making Italy Venezuela's ninth largest source of imports. The large Italian community in Venezuela and promoting the sale of "made-in-Italy" products there gives Italian business an edge over foreign competitors. Major Italian exports to Venezuela include machine tools, electronics, chemical products, synthetic fibers, and automobiles.

13. (U) Italy has registered a consistent balance of trade surplus with Venezuela for the last five years.

Italy's Foreign Trade with Venezuela (millions of euros)

	Exports	Imports	Balance
2001	849.0	391.0	458.0
2002	637.8	388.4	249.4
2003	268.2	289.0	-20.8
2004	440.5	243.4	197.1
2005	719.0	369.0	350.0

14. (U) According to the Ufficio Italiano dei Cambi, the stock of Italian foreign direct investment in Venezuela as of December 31, 2004, was valued at 188 million euros. Actual investment levels are likely higher, since this figure does not include investments by Italian companies made under "service contracts" in the energy sector. Italian businesses in Venezuela are numerous, concentrated in various sectors, including the petrochemicals, energy, and defense sectors. The Fiat Group controls nine percent of Venezuela's automobile market, while in telecommunications, Telecom Italia owns 56 percent of Digitel, a Venezuelan cellular phone company with over one million subscribers.

Eni and the Energy Sector

15. (U) Eni, the 30-percent GOI-owned oil and gas parastatal, has substantial investments in Venezuela. In April 2005, the GOV terminated the service contracts of multinational oil companies operating in Venezuela and forced them to enter into joint ventures with the Venezuelan national oil company (PDVSA). The GOV has said that PDVSA will own over 60 percent of the joint ventures, up from 30 to 49 percent under the service contracts, giving the GOV greater control over the extraction of Venezuelan oil and the resulting revenue flow. Eni's contract for the operation of the Dacion field, which reportedly produces 60,000 barrels per day, was among those canceled. Eni has invested about 1.5 billion U.S. dollars in Dacion and is unwilling to give up the investment. Eni CEO Scaroni has met with Venezuelan President Chavez and maintains that the "contract (is) effective" and if "they change the conditions, then I expect to be indemnified."

16. (U) Surprisingly, the relationship between Eni and the GOV remains good, and both organizations say they are willing to negotiate. Eni told Poloff June 19 that "the political signals from Caracas have been very positive. We want to work this out." Negotiations have reached a standstill, as each party waits for the other to make an initial compensation offer. If they do not settle on a compensation amount, Eni has said it will take legal action. Scaroni states that, no matter what, "Eni will not quit Venezuela," where it continues to operate two other oilfields. Eni's main concern is that the GOV take into account Eni's ten years of investment in Venezuela, as the two work to reach a settlement.

Comment

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17. (U) As seen from here, the GOV has reason to make sure Eni does not "quit" Venezuela. Venezuela's Orinoco oil belt is filled with heavy oil which Eni has the expertise to recover and profitably refine. We think it likely that the GOV and Eni will continue to do business together, working to negotiate a settlement to their dispute, though it is unlikely that either party will get everything it wants out of the deal. End Comment.
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